

**TOWNSHIP OF CHARLTON**  
**OTSEGO COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**MARCH 31, 2008**

## **Township of Charlton**

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### **Independent Auditor's Report**

December 2, 2008

To the Township Board  
Charlton Township  
Otsego County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Charlton, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and each major fund, of the Township of Charlton as of March 31, 2008 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2-5 and budgetary comparison information on pages 22-25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Keskin, Cook, Miller & Alexander LLP*  
**KESKINE, COOK, MILLER & ALEXANDER, LLP**

# CHARLTON TOWNSHIP OTSEGO COUNTY

P.O. Box 367 • Johannesburg, Michigan 49751 • Phone: (989) 731-1920 • Fax (989) 731-1070

Matthew J. Nowak, Supervisor  
Kimberly Samkowiak, Treasurer  
Ivan H. Maschke, Clerk

Michael McCarthy, Trustee  
Joseph Edwartowski, Trustee  
Sally Nowak, Assessor

## TOWNSHIP OF CHARLTON MANAGEMENT'S DISCUSSION & ANALYSIS YEAR ENDED MARCH 31, 2008

This section of Charlton Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2008.

Please read it in conjunction with the financial statements, which immediately follow this section.

### FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

#### Governmental Activities:

Our financial status increased over the last year. Assets at March 31, 2008 totaled approximately \$1,343,000. Of this total, approximately \$866,771 represents capital assets net of depreciation.

Revenues derived from governmental activities were approximately \$501,000 (approximately \$163,000 from program revenues and \$338,000 from general revenues). The Township's major source of governmental revenues is derived from property taxes and state shared revenues (approximately \$231,000 and \$116,000 respectively for the year ended March 31, 2008). Total revenues increased approximately \$19,000 from the year ended March 31, 2007. Overall expenses for the Township's governmental activities approximated \$548,000 which is an increase of approximately \$82,000 over the year ended March 31, 2007. The increase in expenditures is due to road expenditures during the year ended March 31, 2008 that totaled approximately \$65,000 as compared to \$46,000 in the year ended March 31, 2007 and approximately \$183,000 in capital asset additions as compared to \$157,000 in the year ended March 31, 2007.

The following table shows in condensed format, the net assets of the governmental-type activities of the Township as of March 31, 2008.

	Governmental Activities	
	March 31, 2008	March 31, 2007
<b>Assets</b>		
Current assets	\$ 477,070	\$ 464,582
Noncurrent assets	866,771	628,819
Total assets	<u>1,343,841</u>	<u>1,093,401</u>
<b>Liabilities</b>	<u>-</u>	<u>-</u>
<b>Net Assets</b>		
Invested in capital assets - net of related debt	866,771	628,819
Restricted	179,856	135,032
Unrestricted	297,214	493,787
Total net assets	<u>\$ 1,343,841</u>	<u>\$ 1,257,638</u>

**Business-type Activities:**

The Township currently has no business-type activities.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present all governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Township, you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

All of the activities of Charlton Township are reported as governmental activities. These would include the operations recorded in the General, Fire/EMS and Road Funds.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

**Governmental Funds:** Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

**Fiduciary Funds:** The Township is a trustee or fiduciary for assets that belong to others. The Township maintains these funds and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

## FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

**General Fund** – This fund is used to record all activities of the Township not required to be recorded in a separate fund. The major source of revenue for the general fund is from the Township tax base, and revenue sharing from the State of Michigan. The major expenses for this fiscal year include the general operating activities of the Township.

**Fire/EMS Fund** – This fund is used to account for the financial activities of the fire department. Revenues are derived primarily from property taxes collected for fire protection services.

**Road Fund** – This fund is used to account for financial transactions related to the repair and maintenance of the Township's roads. Revenues consist mainly of special assessment property taxes and contributions from the general fund.

## CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

### Capital Assets:

Additions to Township assets for this year include the following:

### Governmental Activities:

- Township Building Improvements – approximately \$139,854
- Various equipment / furniture – approximately \$6,192
- Fire Pumper – approximately \$125,491

**Long Term Debt:**

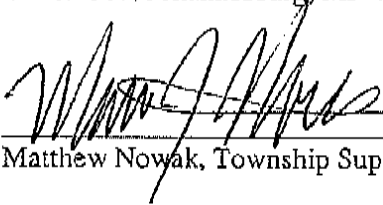
The Township has no long-term debt at March 31, 2008

**KNOWN FACTORS AFFECTING FUTURE OPERATIONS**

There are no known factors that will affect future operations.

**CONTACTING TOWNSHIP MANAGEMENT**

This financial report is designed to provide our taxpayers, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact Matthew Nowak, P O Box 367, Johannesburg, MI 49751 or by calling (989) 731-1920.

  
Matthew Nowak, Township Supervisor

**TOWNSHIP OF CHARLTON  
STATEMENT OF NET ASSETS  
MARCH 31, 2008**

**Assets**

**Current Assets:**

Cash	\$ 460,897
Receivables	16,173
	<hr/>
Total Current Assets	477,070

**Non-Current Assets:**

Capital assets not being depreciated	22,412
Capital assets being depreciated, net	844,359
Total Non-Current Assets	866,771

<b>Total Assets</b>	<b>1,343,841</b>
	<hr/>

**Net Assets**

Invested in capital assets	866,771
Restricted for:	
Fire / EMS services	128,854
Roads	51,002
Unrestricted	297,214
	<hr/>
<b>Total Net Assets</b>	<b>\$ 1,343,841</b>
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See accompanying notes to financial statements

TOWNSHIP OF CHARLTON  
STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2008

P R O G R A M   R E V E N U E S

Functions / Programs	P R O G R A M   R E V E N U E S			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital grants and Contributions
General government	\$ (349,841)	\$ 93,158	\$ -	\$ -
Public safety	(109,527)	23,908	-	-
Public works	(116,351)	-	-	-
Recreation and culture	(4,290)	-	-	-
Health and welfare	(3,926)	-	-	-
Total Governmental Activities	\$ (583,935)	\$ 117,066	\$ -	\$ -
General revenue:				
Property taxes				230,953
State shared revenue (not restricted to a specific purpose)				115,626
Interest				22,187
Miscellaneous revenue				15,279
				384,045
Change in net assets				(82,824)
Net assets - April 1, 2007				1,426,665
Net assets - March 31, 2008				\$ 1,343,841

See accompanying notes to financial statements

TOWNSHIP OF CHARLTON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2008

	<u>M a j o r   F u n d s</u>			
	General	Fire / EMS	Roads	Total
<b>Assets</b>				
Cash	\$ 289,049	\$ 120,846	\$ 51,002	\$ 460,897
Receivables	7,971	8,008	-	15,979
Due from other funds	194	-	-	194
Total Assets	297,214	128,854	51,002	477,070
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>	-	-	-	-
<b>Fund Balances - Equity</b>	297,214	128,854	51,002	477,070
Total liabilities and fund balances	\$ 297,214	\$ 128,854	\$ 51,002	\$ 477,070

See accompanying notes to financial statements

**TOWNSHIP OF CHARLTON  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2008**

<b>Total fund balances - Governmental Funds (per Balance Sheet - page 8)</b>	<b>\$ 477,070</b>
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital Assets used in governmental activities are not financial resources and are not reported in the funds	886,771
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<b>Total assets of Governmental Activities (per Statement of Net Assets - page 6)</b>	<b>\$ 1,343,841</b>
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See accompanying notes to financial statements

**TOWNSHIP OF CHARLTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED MARCH 31, 2008**

	General	Fire / EMS	Roads	Total
<b>Revenues:</b>				
Property taxes and assessments	\$ 121,979	\$ 128,739	\$ -	\$ 250,718
State sources	91,505	-	-	91,505
User fees	43,211	-	-	43,211
Charges for services	42,274	23,908	-	66,182
Interest and royalties	16,737	1,339	5,941	24,017
Other	22,418	3,060	-	25,478
<b>Total Revenues</b>	<b>338,124</b>	<b>157,046</b>	<b>5,941</b>	<b>501,111</b>
<b>Expenditures:</b>				
Tribunal refunds	1,901	-	-	1,901
General government	189,595	-	-	189,595
Public safety	-	55,579	-	55,579
Public works	51,252	-	65,099	116,351
Recreation and culture	1,741	-	-	1,741
Capital outlay	145,344	37,839	-	183,183
<b>Total Expenditures</b>	<b>389,833</b>	<b>93,418</b>	<b>65,099</b>	<b>548,350</b>
<b>Excess (deficiency) of Revenues over Expenditures</b>	<b>(51,709)</b>	<b>63,628</b>	<b>(59,158)</b>	<b>(47,239)</b>
<b>Other financing sources (uses)</b>				
Transfers in (out)	(25,823)	25,823	-	-
<b>Net Change in Fund Balances</b>	<b>(77,532)</b>	<b>89,451</b>	<b>(59,158)</b>	<b>(47,239)</b>
<b>Fund Balance - April 1, 2007</b>	<b>374,746</b>	<b>39,403</b>	<b>110,160</b>	<b>524,309</b>
<b>Fund Balance - March 31, 2008</b>	<b>\$ 297,214</b>	<b>\$ 128,854</b>	<b>\$ 51,002</b>	<b>\$ 477,070</b>

See accompanying notes to financial statements

**TOWNSHIP OF CHARLTON  
RECONCILLATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2008**

<b>Net Change in Fund Balances - (per Statement of Revenues, Expenditures and Changes in Fund Balances - page 10)</b>	<b>\$ (47,239)</b>
Amounts reported for governmental activities in the Statement of Activities (page 7) are different because:	
Depreciation expense is recorded in the Statement of Activities, but not in the fund financial statements	(35,585)
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<b>Change in Net Assets of Governmental Activities (per Statement of Activities - page 7)</b>	<b>\$ (82,824)</b>
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See accompanying notes to financial statements

**TOWNSHIP OF CHARLTON  
STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUND  
AS OF MARCH 31, 2008**

	<b>Assets</b>	
Cash		\$ 79,628
		<hr/>
	<b>Liabilities</b>	
Due to other funds		11,423
Due to Other Governments		68,205
		<hr/>
<b>Total Liabilities</b>		<b>\$ 79,628</b>
		<hr/>

See accompanying notes to financial statements

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE 1: ENTITY**

The Township of Charlton is a general law township of the State of Michigan, located in Otsego County, Michigan. The Township of Charlton operates under a five-member elected Board. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships. On this basis, the financial statements include all of the governmental functions of Charlton Township.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

The accounting and reporting framework and the more significant accounting principles and practices of Charlton Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities for the year.

The accounting policies of Charlton Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION**

***Government-Wide Financial Statements***

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Charlton Township has no business-type activities as of March 31, 2008.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

**TOWNSHIP OF CHARLTON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED MARCH 31, 2008**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION  
(CONTINUED)**

***Fund Financial Statements***

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major governmental funds:

*General Fund* – This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state grants, interest, and other intergovernmental revenues.

*Fire / EMS Fund* – This fund is used to account for the Township's fire fighting EMS activity. Charlton Township also contracts with neighboring Chester Township to provide fire protection services.

*Road Fund* – This fund is used to account for the Township's road improvements and maintenance performed.

The Township has no non-major funds.

***Fiduciary Fund***

Fiduciary funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township maintains a tax collection fund in this category.

**TOWNSHIP OF CHARLTON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED MARCH 31, 2008**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

***Government-Wide Financial Statements***

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

***Governmental Fund Financial Statements***

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities.

The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

**Property Taxes**

The property tax calendar is as follows:

Levy Dates	July 1, 2007	(summer collection)
	December 1, 2007	(winter collection)
Due Dates	September 15, 2007	(summer collection)
	February 15, 2008	(winter collection)

**TOWNSHIP OF CHARLTON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED MARCH 31, 2008**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)**

***Governmental Fund Financial Statements (Continued)***

The real property tax rolls were turned over to the County of Otsego on March 1, 2008. Collection of personal property taxes remains the responsibility of the Township. Amounts collected after the due date are assessed interest and / or penalty provisions. A county revolving fund normally pays the balance of the Township's real property tax levy by May 31. The entire Township levy is recorded as revenue in the current year.

The tax rates for the year ended March 31, 2008, were as follows:

<u>Purpose</u>	<u>Rate</u>
General	0.9542/\$1,000
Fire	1.2000/\$1,000

**CAPITAL ASSETS AND DEPRECIATION**

The Township's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$1,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The following ranges are proposed as guidelines in estimating useful lives for asset reporting:

Buildings and improvements	40 – 100
Land improvements	10 – 50
Machinery and equipment	3 – 20
Furniture and fixtures	10 - 40
Vehicles	10 – 30

Land and construction in progress are not depreciated.

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED MARCH 31, 2008**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CAPITAL ASSETS AND DEPRECIATION (CONTINUED)**

With respect to asset improvements, costs over \$1,500 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or
5. In the case of streets and roads, if the work done impacts the "base" structure.
6. Otherwise, the cost should be expensed as repair and maintenance.

**BUDGETS**

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township for budgetary funds were adopted on a fund level. Budgets are normally formulated during January and February of each year and a budget hearing is held in March. The Board normally adopts the budget just prior to April 1. Amendments are made to the budgets when determined to be necessary throughout the year. The budgets presented are the final amended amounts. Budgets close on March 31st each year.

For the fiscal year ended March 31, 2008, the Township experienced over expenditures in the transfer station by \$2,036 and capital outlay by \$5,040.

**USE OF ESTIMATES**

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

**NOTE 3: CASH AND INVESTMENTS**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds and investment pools composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

**TOWNSHIP OF CHARLTON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED MARCH 31, 2008**

**NOTE 3: CASH AND INVESTMENTS (CONTINUED)**

The Township has designated one bank for the deposit of its funds. The Investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs.

Charlton Township's deposits and investment policies are in accordance with statutory authority.

As of March 31, 2008, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	\$ 460,897	\$ 79,628	\$ 540,525

The Township's cash and investments consist entirely of bank deposits as follows:

Bank deposits - checking and savings accounts	\$ 492,964
Certificates of deposit	47,561
Total	<u>\$ 540,525</u>

**Deposits**

The bank balance of the Township's deposits is \$540,525 of which \$151,003 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated level are used as depositories.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity of the Township's governmental activities were as follows:

**TOWNSHIP OF CHARLTON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED MARCH 31, 2008**

**NOTE 4: CAPITAL ASSETS (CONTINUED)**

Governmental Activities	Balance <u>April 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>March 31, 2008</u>
Capital assets not being depreciated - Land	\$ 22,412	\$ -	\$ -	\$ 22,412
Capital assets being depreciated:				
Buildings	660,747	139,854	-	800,601
Land improvements	28,665			28,665
Furniture and fixtures	14,213	-		14,213
Vehicles	391,396	125,491		516,887
Machinery and equipment	81,195	8,192	-	89,387
Subtotal	1,176,216	273,537	-	1,449,753
Accumulated depreciation:				
Buildings	252,043	13,205	-	265,248
Land improvements	7,286	717	-	8,003
Furniture and fixtures	9,594	711	-	10,305
Vehicles	251,550	15,893	-	267,443
Machinery and equipment	49,336	5,059	-	54,395
Subtotal	569,809	35,585	-	605,394
Net capital assets being depreciated	606,407	237,952	-	844,359
Net capital assets	<u>\$ 628,819</u>	<u>\$ 237,952</u>	<u>\$ -</u>	<u>\$ 866,771</u>

Depreciation expense was charged to functions of the Township as follows:

General government	\$ 16,957
Public safety	16,109
Recreation and culture	1,888
Health and welfare	631
Total	<u>\$ 35,585</u>

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED MARCH 31, 2008**

**NOTE 5: PENSION PLAN**

The Township of Charlton contributes to a pension plan which is a defined contribution pension plan administered by the Manulife Financial, Inc.

A defined contribution pension plan provides pension benefits in return for service rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

All members of the elected Township Board are eligible to participate in the plan. Contributions made by the Township and employees vest immediately. The participant will receive benefits upon termination of employment with the Township.

The plan requires the Township to contribute 12% of the eligible employee's wages. During the year the Township contributed \$12,003 to the plan, which was the amount necessary to meet the Township's current year obligation as well as account charges to the plan provider.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

**NOTE 6: CONTINGENCIES**

**INSURANCE**

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Municipal Liability and Property Pool, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage

**TOWNSHIP OF CHARLTON**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED MARCH 31, 2008**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance From Final Amended Budget</b>
<b>Revenues</b>				
Property tax revenue	\$ 119,200	\$ 119,200	\$ 121,979	\$ 2,779
State shared revenue	91,150	91,150	91,505	355
User fees	42,900	42,900	43,211	311
Charges for services	37,500	37,500	42,274	4,774
Interest	11,000	11,000	14,907	3,907
Other revenue	16,030	16,030	24,248	8,218
<b>Total revenue</b>	<b>317,780</b>	<b>317,780</b>	<b>338,124</b>	<b>20,344</b>
<b>Expenditures</b>				
General government:				
Township board	100,130	100,130	49,818	50,312
Supervisor / Assessor	45,020	45,020	43,141	1,879
Elections	2,320	2,320	2,238	82
Clerk	18,300	18,300	17,693	607
Treasurer	26,545	26,545	24,068	2,477
Township hall	61,326	61,326	43,309	18,017
Township office	10,900	10,900	7,274	3,626
Cemetery	4,750	4,750	3,295	1,455
<b>Total general government</b>	<b>269,291</b>	<b>269,291</b>	<b>190,836</b>	<b>78,455</b>
Public works:				
Transfer station	47,015	47,015	49,051	(2,036)
Street lights	3,000	3,000	2,861	139
<b>Total public works</b>	<b>50,015</b>	<b>50,015</b>	<b>51,912</b>	<b>1,897</b>
Recreation and culture:				
Parks and recreation	8,000	8,000	1,741	6,259
Capital outlay	140,304	140,304	145,344	(5,040)
<b>Total expenditures</b>	<b>467,610</b>	<b>467,610</b>	<b>389,833</b>	<b>77,777</b>

**TOWNSHIP OF CHARLTON  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED MARCH 31, 2008**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance From Final Amended Budget</b>
Excess (deficiency) of Revenues over Expenditures	(149,830)	(149,830)	(51,709)	98,121
<b>Other financing uses</b>				
Transfers out	-	-	(25,823)	(25,823)
<b>Net Change in Fund Balance</b>	(149,830)	(149,830)	(77,532)	72,298
<b>Fund Balance - April 1, 2007</b>	374,746	374,746	374,746	-
<b>Fund Balance - March 31, 2008</b>	<u>\$ 224,916</u>	<u>\$ 224,916</u>	<u>\$ 297,214</u>	<u>\$ 72,298</u>

TOWNSHIP OF CHARLTON  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FIRE/EMS FUND  
YEAR ENDED MARCH 31, 2008

	Original Budget	Final Amended Budget	Actual	Variance From Final Amended Budget
<b>Revenues</b>				
Property tax revenue	\$ 126,500	\$ 126,500	\$ 128,739	\$ 2,239
Charges for services	8,000	8,000	23,908	15,908
Misc	500	500	3,060	2,560
Interest	2,000	2,000	1,339	(661)
Total revenue	137,000	137,000	157,046	20,046
<b>Expenditures</b>				
Public safety:				
Fire services	91,100	91,100	82,542	8,558
EMS services	16,450	16,450	10,876	5,574
Total expenditures	107,550	107,550	93,418	14,132
Excess (deficiency) of Revenues over Expenditures	29,450	29,450	63,628	34,178
<b>Other financing sources</b>				
Transfer in	37,100	37,100	25,823	11,277
<b>Net Change in Fund Balance</b>	66,550	66,550	89,451	22,901
<b>Fund Balance - April 1, 2007</b>	39,403	39,403	39,403	-
<b>Fund Balance - March 31, 2008</b>	<u>\$ 105,953</u>	<u>\$ 105,953</u>	<u>\$ 128,854</u>	<u>\$ 22,901</u>

**TOWNSHIP OF CHARLTON**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD FUND**  
**YEAR ENDED MARCH 31, 2008**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance From Final Amended Budget</u>
<b>Revenues</b>				
Interest	\$ 5,000	\$ 5,000	\$ 5,941	\$ 941
<b>Expenditures</b>				
Public works:				
Road construction and maintenance	30,000	65,099	65,099	-
Excess (Deficiency) of Revenues over Expenditures	(25,000)	(60,099)	(59,158)	941
<b>Fund Balance - April 1, 2007</b>	110,160	110,160	110,160	-
<b>Fund Balance - March 31, 2008</b>	<u>\$ 85,160</u>	<u>\$ 50,061</u>	<u>\$ 51,002</u>	<u>\$ 941</u>



**Keskin, Cook, Miller & Alexander, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Jeffrey B. Cook, CPA  
Richard W. Miller, CPA  
Curt A. Reppuhn, CPA

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Terry J. Distel, CPA (Ret.)  
Joseph G. Okrei, CPA (Ret.)  
Walter J. Keskin, CPA (Ret.)  
Ronald D. Alexaner, CPA (Ret.)

December 2, 2008

To the Township Board  
Township of Charlton  
Otsego County, MI

We have audited the financial statements of the governmental activities and the major fund of the Township of Charlton (the Township) for the year ended March 31, 2008, and have issued our report thereon dated December 2, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on June 10, 2008.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of accumulated depreciation is based on the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop the useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Township's Measurement Focus and Basis of Accounting policy in Note 2 to the financial statements. We evaluated standard governmental accounting policies and procedures in determining the adequacy of the disclosure from a neutral, consistent and clear perspective for the end user.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 2, 2008.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the Township's staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

#### Preparation of Financial Statements

The definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles (GAAP). As a matter of convenience, the Township has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Township has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The Township has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other Governmental Units of its size.

#### *Comments and Recommendations*

##### **Budget**

During the course of our audit we noted that the Township experienced overexpenditures for the transfer station and capital outlay activities within the General Fund, in violation of the Uniform Accounting and Budgeting Act (P.A. of 1968, as amended). We recommend that the Township use its budgets as flexible management tools and amend when necessary to avoid overexpenditures.

This communication is intended solely for the information and use of management, the Township of Charlton's Board of Directors and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Keskin, Cook, Miller & Alexander LLP*

**Keskin, Cook, Miller & Alexander LLP**



**Keskin, Cook, Miller & Alexander, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

December 2, 2008

To the Township Board  
Township of Charlton  
Otsego County, MI

Jeffrey B. Cook, CPA  
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Ronald D. Alexaner, CPA (Ret.)

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Township of Charlton (the Township) as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

**Segregation of Duties**

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the Township's staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

**Preparation of Financial Statements**

The above definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Township has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Township has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The Township has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other Governmental Units of its size.

This communication is intended solely for the information and use of management, the Township of Charlton's Board of Directors and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Keskin, Cook, Miller & Alexander LLP*

**Keskin, Cook, Miller & Alexander LLP**